

Opening statement
Chairman Michael G. Oxley
Committee on Financial Services

“Accounting under Sarbanes-Oxley: Are financial statements more reliable?”
September 17, 2003

Good morning. Last year, in the wake of an unprecedented erosion of investor confidence, the Congress responded by passing historic corporate reform legislation. The centerpiece of the one-year-old law, the Public Company Accounting Oversight Board, is charged with the critical task of ensuring that audited financial statements are informative and accurate. It is well-known that trust in the financial reporting system is the foundation of our capital markets system.

Today we will hear from Board chairman Bill McDonough, who assumed the reins at the PCAOB just a few months ago. I have known Chairman McDonough for some time and can say with great confidence that the Board could not have a better leader. His actions to date illustrate his dedication to rigorous and effective oversight of the accounting industry.

Investors should feel confident that, under the leadership of Chairman McDonough and the other members of the Oversight Board, this new regulatory body has already changed the financial reporting system for the better, and its work has only just begun.

We will also hear from the Securities and Exchange Commission, which must approve all of the Board’s proposed rules and sanctions. Chairman Donaldson has demonstrated exemplary leadership in his first year at the Commission. To cite but one example, enforcement actions against securities law violators have increased under his supervision. I look forward to his testimony.

The Public Company Accounting Oversight Board is off to a good start. It has taken a number of important organizational steps, including hiring a first-rate staff, establishing strict ethics rules and standards of conduct for Board members and staff, and reviewing hundreds of registration applications.

There are still difficult issues remaining to be resolved, including treatment of non-U.S. auditors, establishing permanent professional standards for auditors of public companies and implementing the soon-to-be-enacted inspection and investigation rules. Some have raised concerns about the costs of compliance with the new rules for smaller firms. While it is essential that the new regulations governing our financial reporting system not leave dangerous gaps, it is also important for regulators to conduct an appropriate cost-benefit analysis in crafting those regulations. I know the Board is working diligently on these matters, and I look forward to hearing more about the Board’s progress on these issues today.

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